DAILY ANALYSIS REPORT

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ABANS

Gold could drop as the future path for rate cuts looks uncertain

Built-in US oil inventory and resumption of oil supply from Aramco to keep prices lower

Selling in equities and FII's outflows is keeping the domestic currency under pressure

Copper prices lower after Fed rate decision, may receive support from US-China trade talks

GOLD MAY DROP AS THE FUTURE PATH FOR RATE CUTS LOOKS UNCERTAIN AFTER THE SEPTEMBER DECISION OF 25 BPS BY THE US FED

- The Federal Reserve cut interest rates by 25 bps as per market expectations, but the future path looks uncertain. The Federal Reserve kept the Fed funds rate at 1.75% to 2% through the end of the year.
- The Federal Reserve left the door open for additional cuts, but members were split over the September decision and the outlook for further reductions looks uncertain. It was the second rate cut this year.
- Positive economic data has supported the US dollar and this is keeping gold prices under pressure. US manufacturing output increased steadily in August, boosted by a surge in the production of machinery and other goods.
- Optimism on the US-China trade front is appearing negative for gold prices. US President Donald Trump is confident of sealing a deal on trade with China before the US presidential elections, or an agreement could be reached the day after US voters go to the polls.
- Uncertainty on Brexit and Geopolitical tensions in the Middle East is supporting gold prices.

Outlook

- A disappointment from the Fed put additional pressure on gold prices. Gold was also under pressure due to increasing optimism over US-China trade talks. However, mounting tensions in the Middle East after the drone attack on Saudi Aramco have increased the risk premium and improved the safe-haven demand for gold. The ECB's decision to start bond-buying will create additional liquidity in the system, taking interest rates further negative, which shall support gold in the medium term. We expect CME Gold futures contracts to find a stiff resistance near $1,568-1,583 levels, while an immediate support level can be seen around $1,501-1,488 per ounce.

BUILT-IN US OIL INVENTORY AND RESUMPTION OF OIL SUPPLY FROM ARAMCO TO KEEP PRICES LOWER

- The Energy Information Administration reported a crude oil inventory build of 1.1 million barrels. This compares with a 6.9-million-barrel draw a week earlier. Gasoline stockpiles increased by 800,000 barrels and distillate fuel inventories rose by 400,000 barrels.
- Easing policy by Bank of Japan and a rate cut by the Fed alongwith ECB's push may increase short-term liquidity into the system. The U.S. Federal Reserve on Wednesday cut its overnight rate by 25 basis points to a range of 1.75% to 2%, however, Fed appeared divided on further action for the year. The Bank of Japan (BoJ) kept the monetary policy steady and maintained its short-term interest rate target at -0.1%; there was also a pledge to guide 10-year government bond yields around 0%.
- Oil prices slipped after Saudi Arabia's Energy Minister sounded confident that Aramco will restore lost oil production by the end of the month. Saudi Aramco has informed some Asian refiners that it will supply full allocated volumes of crude oil in October with some changes.
- President Trump tweeted on Monday that the U.S. is "locked and loaded," raising alarms after the attack on Saudi Aramco, but is not interested in waging a war. Still, there is a cause for caution about Middle East tensions after the US confirmed that the attacks originated in southwestern Iran. Iran has denied involvement in the strikes. Further escalation of conflict in the Middle East may halt oil production in the near future.

Outlook

- A sudden spike in Brent oil prices after the drone attack on Saudi Aramco has led to a decrease in the oil supply for the short term. Rising tensions in the Middle East post the Aramco attack may keep oil prices higher. However, supply assurance from the US and improved supply from Aramco may put some pressure on oil prices at higher levels. An increase in US oil inventory and uncertainty over future rate cuts by the Fed may keep oil prices under pressure. Brent oil could find support around 63.80-60.50 levels, while key resistance remains near 69.70-72.40- levels.

SELLING IN EQUITIES AND FII'S OUTFLOWS IS KEEPING THE DOMESTIC CURRENCY UNDER PRESSURE

- A significant drop after the huge rally in crude oil prices is lending some support to the Indian rupee, but outflows from Foreign Institutional Investors and a sell-off in equities is keeping the domestic currency at bay.
- Oil prices rallied on Monday following an attack on Saudi Aramco. Saudi Arabia is the second-largest supplier of crude to India. Asian currencies recovered some losses after crude oil prices dropped seeing an ease in the supply situation much earlier than anticipated.
- Finance Minister Nirmala Sitharaman is set to announce some additional fiscal measures in the coming days and infrastructure could be an area of action.
- The US Fed sounded less dovish in the September meeting where it cut rates by 25 bps, but looked uncertain on future rate cuts. The ECB decision to cut interest rates and starting a new bond-buying program will support emerging markets as inflows could improve further.
- The US and China will discuss tariff issues again today. US President Trump's delaying of an increase in Chinese tariffs by 15 days have supported global equities in the recent past.

FII and DII Data

- Foreign Funds (FII's) sold shares worth Rs. 959.09 crores, while Domestic Institutional Investors (DII's) bought shares to the tune of Rs. 780.45 crores on September 18th.
- In Sept'19, FII's net sold shares worth Rs. 7,334.64 crores, while DII's were net buyers to the tune of Rs. 7,538.84 crores.

Outlook

- The Rupee may recover till 70.80 levels against the US dollar in the short term following measures by the Government of India to stimulate the economy, optimism over US-China trade war, a interest rate cut by the US Fed and dovish policy measures by other central banks such as BOJ, ECB, BOE and PBOC. Meanwhile, we can see the rupee trading in a broader range of 70.80-72.30 in the short to medium term.

COPPER PRICES LOWER AFTER FED RATE DECISION, MAY RECEIVE SUPPORT FROM TRADE

- US President Donald Trump has said on Tuesday that his administration could seal a deal on trade with China before the U.S. presidential elections, or an agreement could be reached the day after U.S. voters go to the polls.
- The US-China deputy level talks starting today may lend some support. President Trump announced a delay in the tariff increase on $250 billion worth of Chinese goods from Oct. 1 to Oct. 15 as a "gesture of goodwill" to China.
- China reciprocated this gesture by renewing purchases of U.S. farm goods. The US and China are set to meet later in October. Progress on the trade front may revive some lost demand in copper.
- The US Federal Reserve cut interest rates by 25 bps, but looked uncertain on future rate cuts.
- The slowdown in China's economy deepened in August, with growth in industrial production at its weakest in more than 17 years.

Outlook

- LME 3M Copper contracts dropped from the recent highs of $5,979 per ton on poor Chinese economic data, but optimism over US-China trade talks could provide support at lower levels. Recent economic stimulus by the People's Bank of China through RRR cuts, ECB's decision to cut rates, bond-buying program by the ECB and a second rate cut by the US Federal Reserve could support demand at lower levels. Copper may find import support around $5,849-5,767 per ton, while key resistance can be seen near $6,036 per ton.

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